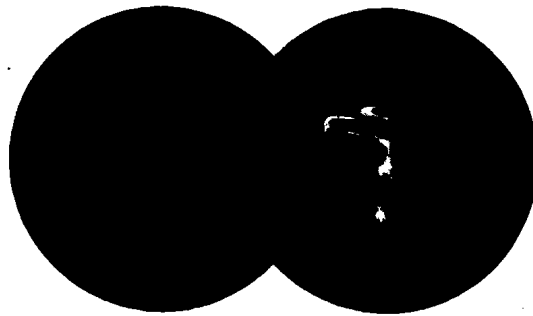


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WEEKLY SUMMARY



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SECRET**H I G H L I G H T S**

Soviet actions during the past week provided few additional clues concerning the line to be taken by the USSR at the forthcoming meeting of the Council of Foreign Ministers. Soviet propagandists appear to be preparing for any eventuality by continuing to stress their "peace" theme while simultaneously attacking western "imperialists and war-mongers." Although the Kremlin may choose to use the present occasion largely as an opportunity to rid itself of the political and economic disadvantages of the Berlin blockade and regain maneuverability in the cold war, there appear to be compelling reasons for the USSR to try to bring about a temporary easing of the East-West tension by meeting substantially the terms of the western powers concerning a united Germany (see page 2).

The Israeli position at the Lausanne discussions on the Palestine problem has been greatly strengthened, and the position of the Arabs correspondingly weakened, by Israel's admission to the UN during the past week (see page 10). Because the Israeli delegates will probably become even more unyielding on the major issues of the Palestine question, it is likely that no formal agreement will be reached at Lausanne and that Arab-Israeli relations will continue to be based upon armistice agreements.

In the Far East, prospects for final settlement of the Indonesian dispute have been considerably strengthened by preliminary agreements recently reached at Batavia, though many controversial points remain (see page 13); Chinese Communist military forces have continued to move into South China while meeting little or no effective opposition (see page 11); meanwhile, Acting President Li's decision to return to Canton can do no more than provide a temporary semblance of Nationalist unity inasmuch as Li and Chiang Kai-shek have not reached an effective agreement on the division of authority between them (see page 11).

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SECRET**THE FORTHCOMING CFM MEETING**

Soviet actions during the week provided few additional clues as to Soviet intentions at the forthcoming meeting of the Council of Foreign Ministers. Current Soviet propaganda is apparently preparing for any eventuality. The "peace" theme might permit the USSR to make substantial concessions without loss of face, while simultaneous attacks on western "imperialists and warmongers" would provide the propaganda justification for a decision to break off the negotiations. Meanwhile, the USSR is also marking time on the Austrian peace treaty and apparently does not intend to reach any agreement on Austria until some solution on Germany has been found.

1949 Situation Although there is no reason to believe that the USSR has abandoned in the slightest its objective of bringing all Germany under Soviet domination, the logic of the 1949 world situation points toward a major shift in Kremlin strategy in attaining that objective. The situation prior to the 23 May meeting of the CFM is vastly different from that before the CFM meeting of December 1947. The strategic position in Europe of the western powers has materially improved: not only are both France and Italy firmly within the western camp but both possess moderate and stable governments which are making rapid strides toward economic rehabilitation and toward better organization and training of their military establishments. The European recovery program, together with improved economic cooperation among the Benelux nations, is contributing to the steady economic recovery of the continent. The Western Union and the North Atlantic Treaty have become realities and a military aid program is currently under consideration by the US Congress. Previously, the USSR could hope by

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taking a strong line to prevent or retard some of these developments; now the Kremlin is confronted with the fact that it has failed to do so.

Soviet Shift Although it is quite possible that the Soviet Union intends, in the face of this new situation, only to unburden itself of the political and economic disadvantages of the Berlin blockade and regain maneuverability in the cold war, there appear to be compelling reasons for the Kremlin to try for more -- in short, to counteract the progress of the western powers toward consolidation and greater strength. Only through easing the existing tension between East and West by substantially meeting western terms on a united Germany can the USSR hope to do this. Such a course would inevitably confront the western powers with the necessity for revising major policy decisions which are presently based upon an east-west division of Germany and upon a continuation of the cold war. It would, temporarily at least, provide the USSR with renewed opportunity for exploiting differences among the western powers and for creating confusion and uncertainty among the peoples of the western nations.

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SECRET**W E S T E R N E U R O P E**

Italian Colonies If the Bevin-Sforza plan for the disposition of the former Italian colonies is supported by the Latin American bloc and at least a few Asiatic states, it will probably be approved by the UN General Assembly; otherwise the issue will again be postponed. In addition to British trusteeship over Cyrenaica, the Bevin-Sforza plan provides for Italian trusteeship over Somaliland, French trusteeship over the Fezzan, and partition of Eritrea between Ethiopia and the Sudan, with special status for Asmara and Massawa. The UK, assisted by an advisory council, would remain in interim control of Tripolitania until 1951, at which time Tripolitania would be placed under Italian trusteeship. This plan is the result of: (1) British recognition that UK trusteeship over Cyrenaica would probably be impossible without some conciliatory gesture toward the pro-Italian bloc; and (2) appreciation by the Italians that alternatives to the plan might prove even less favorable to Italy. Although pro-Italian Latin American delegates will probably support the plan, it will be opposed by the Arab and Soviet blocs and its passage will depend upon securing support from some of the Asiatic nations.

World Labor In a determined effort to launch at least a provisional world labor organization prior to the 28 June Milan Congress of the World Federation of Trade Unions (WFTU), the major western national labor organizations have issued invitations to free trade unions of North and South America, Europe, and Asia for a 25 June meeting at Geneva. US, British, and Dutch sponsors hope that as a result of this preliminary meeting they can: (1) form a provisional committee to draft the proposed international's

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charter and to prepare for a world labor conference in the fall of 1949; (2) effect the withdrawal of the remaining non-Communist national labor unions from the WFTU; and (3) persuade still undecided unions to join the new international. The recent decision by the AFL and CIO to support the new international has eliminated a major obstacle to the formation of such an organization, since it dispels the doubts of the small-nation labor organizations about joining until assured that both US labor organizations would be represented.

Success of the forthcoming Geneva meeting, however, will depend largely on the attitude of the trade unions of the small powers which attended the Brussels Conference-- Belgium, Luxembourg, Norway, Denmark, Sweden, Switzerland, and Ireland. Although they have accepted invitations to the Geneva meeting and are anxious for the prompt establishment of an effective world labor organization, they are not likely to agree to the proposals of the sponsoring powers unless they are granted a substantial role in the new international. They will probably also insist on guarantees against big-power domination and the right to convoke the fall world labor conference.

GERMANY

Bonn Constitution With the draft constitution for a west German government completed ahead of schedule and already submitted to the military governors for approval, the target date for actual creation of the government has reportedly been set for 15 July. German leaders are expected to push ratification of the constitution by the eleven Laender groups as fast as possible, in the hope that the government can be set up before the end of the CFM meeting. Despite fears that the western powers will sacrifice the

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SECRET**GERMANY**

proposed government in order to obtain Soviet agreement on an overall German settlement, ratification of the constitution by at least 2/3 of the Laender is expected. Opposition to ratification will be strongest in Bavaria where separatist sentiment has increased and forms a convenient rallying point for elements hostile to the Bonn Constitution. Pressure from western powers and from Laender anxious to participate in the new government, however, is likely to bring the Bavarians as well as other opposing groups into line for ratification.

Coal Shortage The coal shortage in western Germany may become sufficiently serious in the next few months to reduce industrial production and further accentuate unemployment, which is already being viewed seriously by the German Socialist Party (SPD). The coal shortage will probably become acute because of: (1) a larger-than-usual seasonal slump in coal output arising from the extension of paid vacations to the coal miners; (2) the maintenance of high coal export quotas at the expense of coal allocations to German industry; and (3) increased production of manufactured goods resulting from the anxiety of industrialists to take advantage of the currently high prices. The SPD, largely in a bid for support in the coming elections, already contends that the present unemployment situation parallels that of the great 1932 economic slump which provided impetus to Hitler's rise. The SPD also criticizes the industrialists for their lack of long-range planning for rehabilitation in order to absorb West Germany's unemployed which now number more than a million. An increase in unemployment following a coal shortage and reduced production would intensify Socialist demands for corrective measures.

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BELGIUM

Royalist Issue The Belgian national elections in June are not expected to solve the problem of the reinstatement of exiled King Leopold which is a continuing cause of governmental instability and disunity. Ever since Belgium's liberation, there has been a sharp division on the royalist issue between the Catholic and Socialist parties, respectively pro- and anti-Leopold. Even if the Catholic Party gains sufficient strength in the forthcoming elections to obtain parliamentary approval for Leopold's return to the throne, the threat of Socialist withdrawal from the Government and widespread labor unrest would probably deter the Catholic Party from forcing a showdown. Although a decision by Leopold to abdicate in favor of his eldest son might provide a generally acceptable solution to the royalist problem, there is no indication that Leopold is as yet willing to relinquish his claim to the throne.

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SECRET**E A S T E R N E U R O P E****SOVIET UNION**

Industrial Production Recently published Soviet statistics indicate that although consumer goods production and the standard of living have been raised during the first four months of 1949, the USSR is continuing to concentrate on heavy industrial production. Despite relatively greater increases in heavy industrial goods, however, the USSR was still unable to meet its production goals in several vital categories including ball-bearings, tubing, tinsplate, metallurgical equipment, certain types of steam turbines, textile machinery, and grain combines.

GREECE

Political Unrest The marked revival of old political tensions in Greece, resulting from the recent Cabinet crisis, indicates that the Sophoulis Liberal-Populist coalition Cabinet may soon be in for further trouble. By their part in stirring up the Markezinis affair, the Populists have piqued the King and lost some popular support. Moreover, Liberal elements have become more vocal in their attacks against the Populists. His government thus threatened by internal dissensions, Sophoulis may be encouraged to develop--at the expense of the Populists--a working arrangement with such exponents of "strong government" as Generals Papagos and Markezinis. Although the Greek leaders will move cautiously lest they jeopardize the renewal of US aid appropriations, such an unofficial grouping will probably welcome new tests of strength at the expense of the Populists, and the Liberals will continue to advocate early elections, in the hope of displacing the

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SECRET**GREECE**

Populists as the largest single party in Parliament. Since it would be difficult to hold national elections within the next few months, however, the net result may be further political crises in which the predominantly Liberal-Populist coalition now in office would be shattered. In such an event a combination of Liberals and exponents of strong government might well attempt to take over.

Military Developments Guerrilla activities in northern and central Greece belie recent Communist "peace" proposals. More heavy equipment, including four German tanks, has reportedly arrived in the Vitsi area where, despite the dispatch of some units to other areas, guerrilla strength has been maintained at about 6,000 by means of reserves brought in from Albania. While sizable Greek Army forces were engaged in the defensive holding of some 4,000 guerrillas in the 180-odd square miles of the Grammos border salient, new anti-guerrilla operations were started on 5 May against two guerrilla divisions in the mountains of central Greece. These operations represent a continuation of the program of restoring public order which was begun in the Peloponnesus last winter. It is significant that Greek forces are able to undertake such action so soon after the heavy guerrilla attack in the Grammos area, particularly since the guerrillas are likely to repeat the attempt to counteract the Greek Army's progress by means of major offensives in the frontier zone.

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SECRET**NEAR EAST - AFRICA****PALESTINE**

Lausanne Conference The Israeli position at Lausanne has been greatly strengthened by Israel's admission to the UN and the position of the Arab delegations has been correspondingly weakened. The Israelis will probably become more unyielding than ever on such issues as territorial boundaries, the status of Jerusalem, and the Arab refugees. They may be expected to insist on retaining the territory which they have conquered as well as that allotted to them by the UN partition proposal. No one seriously supposes that the Israelis will ever accept more than a handful of Arab refugees. Furthermore, Israel will accept only limited internationalization of Jerusalem. In fact, Jordan has been quite ready to agree to splitting Jerusalem and the Palestine Conciliation Commission Secretariat has already worked out a plan whereby in practice only the holy sites themselves would be internationalized. Although the Arab governments, particularly Egypt and Jordan, appear earnestly desirous of a settlement, it is problematical whether they would permit their delegations to give in to Israel on all these controversial points and return home empty-handed. Thus, unless Israel's desire for a formal peace treaty is strong enough to result in Israeli concessions in the interests of Arab face-saving or unless the Arabs can be pressured to knuckle under completely to the Israelis, no formal agreement will be reached at Lausanne on the major unresolved issues between the two peoples, and relations between them will continue to be based on such uneasy armistice agreements as have already been reached.

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SECRET**F A R E A S T****CHINA**

Communist Advance The Communist military machine continued to roll on into Nationalist South China this week, meeting with little or no effective resistance. In the center, some 23 Communist armies had driven 120 miles south of the Yangtze and seized control of a 150-mile length of the important Chekiang-Kiangsi railway. On the east, although no direct drive on by-passed Shanghai has materialized to date, the fall of Hangchow and Kashing has completely isolated the city from the hinterland. The only remaining surface route out of Shanghai is the Whangpoo River, and Communist advance elements are within 10 miles of Woosung at the river's mouth. Shanghai Commander Tang has stated he will defend Shanghai to the last, but he cannot hold the city for long. It appears likely that the Communists will try to block the only remaining evacuation route by capturing Woosung. To the west, the Communist forces are reported moving on Nanchang in a two-pronged drive from the north and the southeast. Simultaneously, another column is moving west from the Kiukiang area to cut the Hankow-Changsha railroad. In the Hankow sector, six additional armies are poised in an arc to the north of the Yangtze river port. Nationalist Commander Pai Chung-hsi, therefore, faced with the choice of evacuating his forces now or being encircled by the Communists and cut off from his Kwangsi retreat, will probably withdraw his personal troops to Kwangsi, leaving only a "face-saving" force for a token defense of the Wuhan sector.

Li vs. Chiang Acting President Li's decision to return to Canton and rejoin the National Government will do little more than give the government a temporary semblance of unity. Li and Chiang have not reached any firm agreement on the division of authority between them nor is it likely

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SECRET**CHINA**

that Li can obtain sufficient backing to oust the Generalissimo. Chiang still controls the bulk of the Nationalist financial resources, a fairly large body of troops, and many Kuomintang leaders. He has given Li little more than general assurances of non-interference and seems determined to conserve his strength for a last ditch stand on the Foochow-Amoy-Taiwan triangle in the hope of surviving until the outbreak of World War III. Thus, with Li and Chiang continuing to vie for the support of remaining Nationalist elements, the process of Nationalist disintegration and fragmentation will go on in the already familiar pattern.

Fate of Shanghai Current actions by Nationalist officials in Shanghai may bring a protracted and distressing ordeal for city residents and result in the destruction of many of Shanghai's resources. The serious economic dislocation resulting from lack of money and commodities, disruption of normal economic activity, and mounting unemployment is being further aggravated by the actions of the Nationalist Commander, General Tang, and by the defense plans of Chiang Kai-shek who has been in the city since late April. Tang has forcibly removed part of the population, is seizing private property, and will probably increase his terrorist operations against both Chinese and foreign residents. Although some of Tang's actions are justifiable military precautions, he is probably setting the stage for a deluxe "shake-down" as his price for not "defending" Shanghai. Chiang's defense plans cannot prevent eventual Communist occupation of the city. If carried out vigorously, however, they will deprive the Communists of much of Shanghai's material and administrative resources and leave them with grave economic, financial, and administrative problems. In attempting to carry out a "scorched-earth" program for Shanghai, Chiang may hope to provide dramatic

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SECRET**CHINA**

evidence of his determination to resist the Communists, to underline to foreign powers the need for further aid, and to demonstrate that foreign property and nationals cannot be protected in the face of the Communist advance.

INDONESIA

Preliminary Agreement Although prospects for settlement of the Indonesian dispute improved considerably as a result of the recent preliminary agreement to restore the Republican Government at Jogjakarta, many controversial problems must be solved before a final settlement can be reached. For example, implementation of the agreement to restore the Republican Government may run into snags and the far more difficult problem of establishing the basis for a United States of Indonesia remains to be worked out in conference at The Hague. Nevertheless, the progress of the discussions at Batavia and the resignation of the conservative Dutch High Commissioner make it more likely that resolution of these remaining differences can eventually be achieved. The Dutch demonstrated an understanding of the role of compromise in the Batavia discussions and made repeated use of the facilities offered by the UN Commission for Indonesia. The Dutch agreement to restore the Republican Government at Jogjakarta essentially places the burden of proof upon the Republicans who must now demonstrate that they can command the loyalty and allegiance of the majority of the political and military elements in Indonesia. Although it is difficult to estimate the authority which the Republican Government can exercise at this time, initial reports indicate that: (1) the "emergency Republican Government" is prepared

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INDONESIA

to accept the Batavia agreement and rejoin the regular Republican Government; and (2) any solid opposition to the Republicans will come from extremists of both the right and the left who regard any agreement with the Dutch as "collaboration." In addition, the few remaining important Republican military units will probably remain loyal to President Soekarno and the Sultan of Jogjakarta, who will issue most of the orders re-establishing the Republican Government there.

KOREA

Troop Withdrawal The outbreak of clashes along the Korean border and the defection of two Korean army battalions to the North Korean regime are added obstacles in the way of President Rhee's public support for the scheduled withdrawal of US troops. Even before the border incidents and troop defections, it was only with extreme reluctance that Rhee issued a statement approving the US withdrawal. Since this statement, Rhee has initiated a press campaign calling for US guarantees of Korea's defense and independence as a condition to his government's approval for the withdrawal of US forces. While this campaign will make it even more difficult for Rhee to justify his approval of the withdrawal, it is expected that assurances of US material aid to the Republic's security forces, particularly the coast guard, would win Rhee to agreement.

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